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S E C R E T SECTION 01 OF 02 ASUNCION 001261

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TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR
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E.O. 12958: DNG: CO OADR
TAGS: [PTER](#) [PGOV](#) [KCRM](#) [KTFN](#) [ETTC](#) [PA](#)
SUBJECT: PARAGUAY: TRIAL SET FOR SUSPECTED TERRORIST
FINANCIER HIJAZI

Classified By: Susan S. Sutter for reasons 1.4 (b) and (d).

1. (C) SUMMARY: Paraguayan courts will summon indicted Lebanese businessman, Kassem Hijazi, who is charged with tax evasion, criminal association, and violating accounting regulations, to a preliminary oral hearing on October 25. Because back taxes, interest, and fines could surpass USD 7 million, Hijazi could face a 10-year jail term if convicted on the tax evasion charges. Hijazi, while not formally charged with money laundering, is also suspected to have laundered millions of dollars of profits stemming from illicit activities in Ciudad del Este through money exchange houses. A portion of these funds also is suspected to support Lebanese Hizbollah activities. While Paraguayan prosecutors originally sought money laundering charges against Hijazi, to date no one has even been convicted of money laundering in Paraguay, due to a deficient legal framework. END SUMMARY.

How Hijazi Operated

2. (S/NF) Kassem Mohammad Hijazi is a Brazilian citizen of Lebanese descent who owned a pawn shop, which he illegally operated as a money exchange house known as "Telefax Prestamos Prendarios" in Ciudad del Este (CDE), Paraguay (located on the tri-border area of Brazil, Paraguay and Argentina). Prosecutors on the case believe Hijazi illicitly transported money via wire transfers to the United States, the West Bank and Gaza, Lebanon, China, Chile, Taiwan and Panama through a number of money exchange houses. According to press reporting and conversations with the prosecutors on the case, Hijazi laundered money for individuals involved in illegal activities in the tri-border area such as smuggling, piracy, tax evasion, and fees paid to mafia groups. Sensitive reporting and press also indicate that Hijazi took a portion of the laundered funds to support Lebanese Hizbollah activities. Local media reported that millions of dollars were sent through Hijazi to several banks in Beirut controlled by Hizbollah. USG organizations know Hijazi to be a principle Hizbollah fundraiser and activist and to support Hizbollah terrorist-related activities. Aldofo Marin, one of the Paraguayan prosecutors of the case, noted to POLOFFS that documents confirm Hijazi's authentic signature authorizing the transfer of USD 10.2 million from the total USD 65 million authorized by Hijazi (sometimes with false signatures) that was transferred from exchange houses in Ciudad del Este between October 2001 and December 2003. In June 2005, Brazilian Federal Police also opened an investigation into Hijazi's money laundering operations in the tri-border area.

The Case Against Hijazi

3. (C) Under pressure by Brazilian authorities, Paraguayan officials arrested Hijazi in March 2004 in his clandestine exchange house in Ciudad del Este and accused him of money laundering. On February 8, 2005, prosecutors formally charged Hijazi with the lesser crimes of tax evasion and false documentation of commercial records. Although money laundering in the case was evident, prosecutors lacked sufficient evidence to make a legal case for his involvement, largely due to the lack of evidence linking Hijazi to predicate crimes, and therefore dropped the money laundering charges. According to Paraguayan law, because back taxes, interest, and fines could surpass USD 7 million, Hijazi could face a 10-year jail term if convicted on the tax evasion charges. At present, Hijazi remains free on bail, but he must check in weekly with authorities and cannot leave Paraguay. His case will appear before court for a preliminary oral hearing on October 25, 2005. Currently, there is no prosecutor assigned to the case, as Aldofo Marin recently resigned from the Public Ministry and Juan Carlos Duarte relocated to another district. Agosto Mengual, expert witness for the case, expressed his concern to POLOFF that if

no prosecutor is assigned to the case, the preliminary hearing may be pushed back to February 2006.

14. (C) Local press has widely covered the investigation of the case against Hijazi and the prosecutors involved. In an attempt to protect Hijazi and discredit the prosecutors, some press articles criticized the work of prosecutors Marin and Duarte, accusing them of corruption and bribery. According to the media, the prosecutors relied on the opinion of expert witness Mengual, who found that Hijazi had evaded USD 3.8 million in taxes and ignored the reports of two other experts, who found that Hijazi made daily suspicious deposits of USD 10,000 and may have laundered up to USD 32 million. Both prosecutors told POLOFF they never received a report from the other experts, and therefore had to rely only on the report filed by Mengual. (COMMENT: In the past, USG officials have relied on Mengual for information relating to this case with some level of confidence. END COMMENT.) (NOTE: The role of the expert or "perito" in the Paraguayan judicial system is to not only testify during the trial, but also to investigate volumes of evidence and determine any involvement of the defendant in the case. Oftentimes, the perito is a banking expert or businessman; however, these experts may have little understanding of the Paraguayan criminal law or judicial system. END NOTE.)

A Second Pending Case

15. (C) In a separate case, prosecutors announced in February 2005 that they would investigate 113 Ciudad del Este businesses linked to the transfers made by Hijazi through the money exchange house, Tupe Cambios, including 46 individuals, of which 36 are of Arab descent and 10 are Paraguayan. These individuals claimed to prosecutors that they loaned Hijazi money, but were actually lending their signatures on documents helping Hijazi evade taxes. Prosecutors charged the 46 "name lenders" with criminal association and obstruction of an investigation. This case is currently before the Supreme Court's Constitutional Chamber, where prosecutors have until February 2009 to bring the case to an oral trial, according to Paraguayan law.

An Uphill Battle Against Money Laundering Prosecutions

16. (C) Paraguay is a principal money laundering center. Although no figures are known, Paraguayan Government officials suspect criminals, drug traffickers, and terrorist financiers use a range of illicit and licit activities to launder funds. Paraguay still lacks sufficient capacity for the enforcement, investigation and prosecution of criminal offenses for money laundering cases. In fact, to date no individuals have been convicted of money laundering, and many only receive convictions for lesser crimes like tax evasion. Adoption and implementation of a new money laundering law that is currently before Congress will provide GOP authorities with the necessary resources and mechanisms essential for proper investigation and law enforcement. Washington may wish to use the information contained in this cable when considering designating Hijazi a terrorist financier and/or money launderer.
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